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Are news nonprofits doomed to reliance on big gifts? A study in fundraising ? and sustainability

By Jim Barnett / Dec. 14, 2009 / 11:30 a.m.

I've been studying journalism nonprofits one way or another for about five years now, and I confess that in all that time, I've looked at their business models really as being slightly different iterations of the same species. But now, I'm not so sure.

As part of my graduate studies in nonprofit management at George Washington University, this fall I took a closer look at the finances of a dozen journalism nonprofits, keeping in mind the most pressing question for many: How can they diversify revenues and achieve some level of sustainability?

I acknowledge up front that my method was not perfect ? I'll explain at the end ? but I think I've discovered what may be two critical distinctions within the group I studied.

First, the six nonprofits that served geographically defined communities ? whether they be cities, states or regions ? generally did a better job of diversifying their revenue sources than did those that attempted to speak to a national audience.

Second, among these ?regionals,? there appeared to be some correlation between bigger budgets and greater diversity in revenues sources. This pattern suggested to me that there is a happy dynamic at work here ? a virtuous cycle in which diversity of revenue helps create institutional heft that in turn attracts additional philanthropy in the form of major individual gifts and foundation grants. What are the diverse sources that these nonprofits are tapping? For lack of a better descriptor, I lumped them together under the heading of ?transactional? revenues ? advertising, subscriptions, memberships, royalties, event ticket sales, contract research, and anything else that didn't go under the ?direct public support? line on Form 990. Some of these sources are taxable, some are not, and the difference was not always clear. Different nonprofits treated similar revenues in different ways. But I digress.

Regional news nonprofits: With size comes funding diversity

Here's the graph that shows the correlation between average annual budget and a declining dependence on direct public support:

If this trend holds true, I think it would portend a relatively bright future for the nonprofit model as a major contributor in places like city halls and state capitals where newspaper bureaus have been emptied out. These are the places where the disintegration of the newspaper business model is most obvious to readers ? and where for-profit alternatives have a hard time realizing returns on investment. Here, the case for philanthropy is clear ? and so is a nonprofit's potential to supplement its revenues with advertising and other market-driven revenues streams as it scales up its operations. The trend also suggests a cruel and ironic corollary: The journalism nonprofits that can demonstrate the least dependence on foundations and large gifts may be the most likely to succeed in winning them.

National news nonprofits: Greater dependence on large gifts

At the same time, studying the finances of six "nationals" caused me to look at those organizations in a wholly different light.

Like the regionals, journalism nonprofits with national aspirations are feeling pressure to diversify their revenue base beyond foundations and founding donors. And at least some are looking to the regionals' success for tactics they can replicate – witness ProPublica's hiring of Watershed Co., a consultancy with expertise in online and grassroots fundraising. But from what I've seen, most depend on major gifts and foundation grants regardless of size. Here's a graph showing average annual budget and dependence on direct public support:

As I reported here in September, Madeline Stanionis, Watershed's CEO, pronounced herself "skeptical" of prospects for building a national network of small donors. As Stanionis said at the time, donors to political and other "citizen-powered" campaigns have been conditioned to believe that the candidate or institution that receives their donations will respond directly to their demands. But journalism does not – and should not – operate that way, she said. "I just think trying to force a journalistic endeavor into a hole created by these campaigns is not correct," she said.

My suspicion is that the "nationals" also suffer from being one too many levels of abstraction from readers' lives. Their reports, however compelling in their conclusions, don't explain to the reader why city sewer rates are so high or why the state legislature just slashed school spending. As Mike Worth, my graduate advisor and GW's former vice president for development, remarked: "The problem with the case (for philanthropy) is that it's intellectual. Nobody ever died from lack of public journalism." The latter might be debatable, but I think he's got it right.

What's the lesson here? I think there are two, either (or both) of which may be a blinding glimpse of the obvious.

First, the nationals have a solid track record of tapping foundation support and keeping it flowing over a long period. Here, I'm thinking of the Center for Public Integrity, which has relied almost exclusively on foundations and major gifts since Chuck Lewis founded it 20 years ago. Why tamper with success? The only real benefit from the time and effort required to build a grassroots network may be the added credibility of having to answer to an audience. This is doubly true for those such as CPI and ProPublica that specialize in investigative work and also claim to be nonpartisan and/or non-ideological.

The second lesson is that any effort to build a grassroots network at the national level is going to require a lot of refinement. There are simply too many competing news sources and too many requests for support. Breaking through all that background noise is an enormous challenge. Best of luck to those that try.

Except for Mother Jones

Now here's the big exception to the rule: Mother Jones. Among the nationals, MoJo stood out in its time-tested ability to pull revenue from all kinds of sources – advertising, memberships, events and investment income. Steve Katz, the magazine's chief fundraiser, tells me that the model is an outgrowth of a deliberate effort to define and serve a particular constituency.

In an email, Steve told me that MoJo has "worked mightily to make the case that you won't find our kind of point of view anywhere else, and that our journalism is also rooted in a "value proposition" a.k.a. a point of view a.k.a. a politics, and hence our journalism " which must stand on its own as professional grade work " is also about changing the world."

I'll buy that. But I also think that if you take Steve's view to its ultimate conclusion in our current economic and technological environment, it points to a tough road ahead for news organizations trying to replicate the newspaper model of objectivity in the online world. The new national news organizations most likely to prosper are those that already have a built-in constituency " or a primary purpose other than producing journalism.

Here, I am thinking of David Westphal's reporting on Human Rights Watch and its transformation from journalism source to journalism producer. As David noted in his recent testimony at the Federal Trade Commission: "A key point here is that not all of the new players are news organizations." This trend raises important questions about governance and process within nonprofits " how they try (if they try at all) to insulate their news-gathering operations from their advocacy, much as newsrooms were separated from advertising departments at newspapers.

Where does it all go from here? In my view, the nonprofit model will shake out into two, three or maybe four discrete models, depending on reach and mission. Like cousins, at first glance, they'll look somewhat alike and may get together once a year for reunions. But each will have its own distinct direction, habits, inclinations " and contributions to the public debate.

A note on the methodology: How'd I select the 12 nonprofits for my study? Frankly, it wasn't very scientific; it was more an exercise in putting together a fact pattern. I began by listing the nonprofits I knew that (a) existed primarily to produce journalism and (b) had revenues of \$100,000 or more a year, and 3) had filed their Form 990 tax returns someplace where I could find them online.

The list worked out to an even dozen, with six that I considered to be national in reach (ProPublica, Center for Public Integrity, Center for Investigative Reporting, Mother Jones, The Nation, Grist) and six that were primarily regional (Texas Observer, High Country News, MinnPost, Voice of San Diego, Chi-Town Daily News, New Haven Independent).

From there, I assembled all available revenue data from 2002 onward and developed an annual average for each nonprofit's revenues and the percentage of revenues derived from "direct public support." Then I plotted them on two graphs, one for regionals and the other for nationals.